

# AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON WEST COAST DISTRICT MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the West Coast District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 125 to 162.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act no.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the West Coast District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Restatement of corresponding figures**

9. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the West Coast District Municipality at, and for the year ended, 30 June 2009.

### **Material under spending of the budget**

10. As disclosed in Appendix E, the municipality had an expenditure budget of R237,02 million and incurred operating expenditure of R201,70 million. This resulted in the budget being under spent by R35,32 million(14.9%).

### **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 163 to 173 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA; Municipal Regulations (Regulations - GNR/GN); DoRA; Municipal Systems Act of South Africa, 2000 (Act 32 of 2000); Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998) and financial management (internal control).

### **Predetermined objectives**

14. Material findings on the report on predetermined objectives, as set out on pages 302 to 327, are reported below:

### **Non-compliance with regulatory and reporting requirements**

#### **Municipal Planning and Performance Management Regulations, 2001**

#### **Internal audit did not audit the results of performance measurements**

15. Contrary to the requirements set out in Regulation 14(1)(c)(ii) internal audit did not prepare quarterly reports on their review of performance information for submission to the municipal manager and performance audit committee.

## **Usefulness of information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

### **Planned and reported performance targets not specific measurable and time bound**

16. For the selected objectives:

- 52% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.
- 4% of the planned and reported targets were not measurable in identifying the required performance.
- 14% were not time bound in specifying the time period or deadline for delivery.

17. For the selected objectives 52% of the planned and reported indicators and measures were identified which were not clear, with an unambiguous definition, to allow for data to be collected consistently.

## **Compliance with laws and regulations**

### **Municipal Supply Chain Management Regulations, 2005**

#### **Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

18. Contrary to the requirements of regulation 13(c), conflict of interest declarations were only requested for transactions in excess of R30 000 even though there is no monetary threshold identified in the regulation.
19. Contrary to the requirements of regulation 16(d), transactions were identified where three quotations could not be obtained but reasons for these deviations were not recorded nor reported to the accounting officer.
20. Contrary to the requirements of regulation 36, the accounting officer does not formally authorise deviations from official procurement processes and instances were identified where regulation 36 reporting requirements to council were not met.

## **INTERNAL CONTROL**

21. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA and MSA but not for the purpose of expressing an opinion on the effectiveness of internal control.

22. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### **Findings on predetermined objectives**

#### **Leadership**

23. Quality was not understood by all to be a prerequisite which led to the performance targets not being useful in all instances.

#### **Financial and performance management**

24. Pertinent information was not identified and captured in a form and time frame to support financial reporting. This resulted in a number of indicators not being useful as required by the framework for managing performance information.

#### **Governance**

25. Actions were not taken to address risks relating to the achievement of complete and accurate reporting on predetermined objectives. This resulted in internal audit not reporting quarterly to the audit committee on the results of performance measurements, which could have prevented the audit findings on pre-determined objectives.

### **Findings on compliance with laws and regulations**

#### **Leadership**

26. The management did not exercise oversight responsibility over compliance with the MFMA and the municipal supply chain management regulations to prevent irregular expenditure.

*Auditor General*

Cape Town

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*